VERDICT

The Fed hints at further interest rate rises, signaling continued US economic growth

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July 12, 2017

Since December, the Fed has raised its benchmark interest rate three times.

Over the longer term, however, interest rates are likely to remain historically low.

"The Committee continues to anticipate that the longer-run neutral level of the federal funds rate is likely to remain below levels that prevailed in previous decades," Yellen said in prepared remarks to Congress on Wednesday.

Despite stronger household spending and a pickup in consumer sentiment, inflation remains well below the Fed's 2 percent target.

Yellen insisted that continued economic growth would push inflation up, and pointed to a robust jobs market, with the unemployment rate at a low 4.4 percent in June.

Yellen nevertheless admitted that there was a lot of uncertainty surrounding inflation.

"Considerable uncertainty always attends the economic outlook," Yellen said on Wednesday. "There is, for example, uncertainty about when — and how much — inflation will respond to tightening resource utilization."

She added that the Fed was focused on altering interest rates as its key policy tool, while ensuring that the reduction of its $4trn balance sheet would begin "this year."

However, financial experts note that the Fed's aim to shrink its portfolio, while increasing interest rates in the short-term is unfeasible.

"There is a very considerable risk that the Fed's plan to continue raising its policy rates, with the ultimate aim of achieving a fed funds rate of close to 3 percent, will clash with its commitment to reduce the size of its balance sheet," George Selgin, the director at the Cato Institute's Center for Monetary and Financial Alternatives told *Verdict*.

"That's because raising the policy rate these days means raising the rate the Fed pays banks to hold excess reserves, which will sustain if not enhance their already strong appetite for such reserves. Shrinking the balance sheet, on the other hand, means reducing the total supply of bank reserves. Maintaining a strong demand for reserves while reducing their quantity could well prove a recipe for monetary overtightening," he added.

During the financial crisis and in its immediate aftermath, the Fed pursued a policy of low interest rates to encourage investment, increase consumer spending, and boost economic growth.